



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. DO NOT DISMANTLE PUBLIC PENSIONS BECAUSE THEY ARE NOT 100 PERCENT FUNDED: Have you ever heard that policymakers want to close participation in a pension plan to all new hires? How about cutting benefits and increasing employee contributions, or converting defined-benefit pensions into do-it-

yourself defined-contribution plans? In the last decade or so, state and local policymakers have been doing exactly these things. In essence, they have been slowly dismantling public pensions. Why? Because, they argue, pension plans are underfunded and cannot be sustained. They also argue that taxpayers cannot afford public pensions. These are misguided arguments and actions. Ability to pay depends on whether an entity can meet its cash flow needs and whether the total assets of the entity – the public employer – are a reasonable fraction of its total liabilities. NCPERS has addressed the issue of whether taxpayers can afford public pensions in earlier research, which shows that public pensions impose little or no burden on taxpayers. If anything, it has demonstrated that public pensions are revenue-neutral or revenue-positive. In a new study, their focus is on whether the ability of public pension plans to meet their benefit obligations has anything to do with their current underfunded status. New research shows that funding status has little correlation with a pension fund's ability to pay the promised benefits. Building on Tom Sgouros's recent work, John Mctighe and others argue that full funding of public pensions is not only a misguided goal but also a waste of taxpayer money. As long as annual contributions and investment income exceed benefit payments, pension funds can continue to operate in perpetuity regardless of their funding status. The new research, while compelling, does not, of course, minimize the role of actuarial and investment professionals. Since employee contributions are usually fixed and deducted from employee paychecks, employer contributions and investment earnings become

central to the future success of pension plans. Therefore, the determination of the required employer contributions, and the development of investment strategies by actuaries and investment professionals to ensure that contributions and investment income remain greater than annual benefit obligations, become more important than ever before. Implementation of an adequate funding policy is necessary to make sure that funds accumulate sufficient assets to weather future economic downturns. The purpose of this study is to examine what determines the ability of a pension system to pay annual benefits. Using empirical data from 1993 to 2016, we find that pension funding levels are not the key factor explaining the ability to pay annual benefits. Funding ratios are not a good benchmark to assess the health of a pension system. Our analysis shows that funding level does not correlate with pension plans' ability to pay annual benefits. Instead, pension funds' ability to pay benefits depends on two things: (1) contributions and investment income is more than benefit obligations in a given year and (2) there is a sufficient cushion to weather an economic recession. Whether they realize it or not, policymakers are dismantling public pension structures that work to attract and maintain a productive workforce – to the detriment of their local economies and human resources needs. Our earlier analysis shows that if state and local governments continue to dismantle public pensions, the national economy will suffer \$3 trillion in damage by 2025. The analysis also estimates the damage dismantling does to each state economy. The Kentucky economy, for example, will experience \$13 billion in damage by 2025,

if the state continues along the path of dismantling public pensions. The present study explores the following specific questions. How often have state and local pension plans been able to pay benefits from contributions and investment income during the last quarter century? Did they have enough assets to meet their obligations in case of shortfalls? What is the 2016 funding status of state pensions? Are the top- and bottom-funded state pension plans distinguishable in terms of their ability to pay annual benefits from contributions and investment income? If funding status should not be used as a basis for pension reforms, what should be the policy options? The study is organized into six sections. Section 1 describes our data and methodology. Section 2 examines the ability of state and local pension plans to pay benefits from contributions and investment income during the last quarter century. Section 3 focuses on the 2016 funding status of state pension plans. Section 4 explores whether the top- and bottom-funded pension plans are distinguishable in terms of their ability to pay annual pension benefits from contributions and investment income. Section 5 addresses what policy options should focus on if funding status should not be used as a basis of reform. Section 6 summarizes our conclusions. See the full important report at www.ncpers.org

2. RAINY-DAY ACCOUNTS COULD HELP PROTECT

RETIREMENT ASSETS: *Pensions and Investments* reports that the pressure on workers to save for retirement while also being prepared for emergencies could be eased by employer-sponsored rainy-day

savings accounts, authors of a new Brookings Institution paper suggest. They found that for every dollar going into 401(k) and similar retirement accounts, as much as 40 cents leaks out before retirement, due to emergency needs. They present three specific implementation options for reducing savings leakage: using after-tax 401(k) contributions for rainy-day savings; using certain Roth IRA contributions within a 401(k) plan; and bank or other depository accounts. The paper delves into the pros and cons of each approach, along with conceptual frameworks for all three. The three ideas are based on voluntary participation. The co-authors have been talking with key stakeholders about ways to test the ideas. We want to think creatively and try things out. That will give us real-world feedback, says one of the co-authors, who cautioned that any approaches must "first do no harm" by not reducing retirement savings. The hope here is to find a way ultimately to reduce leakage from the retirement system. The paper, "[Building emergency savings through employer-sponsored rainy day savings accounts](#)," is available on the Brookings website.

3. VACATION: ALL THEY EVER WANTED: *HRE Daily* reports that if your organization is in the midst of planning its annual holiday party (and possibly stressing over what could happen during said party in this post-Harvey Weinstein era), then know this: Most employees would actually prefer more time off in lieu of a holiday celebration. That finding is according to a new survey from Randstad US, which finds that 90 percent of employees would choose extra vacation days

(or a bonus) over a workplace holiday party. Time off is a thorny subject here in the U.S., one of the few industrialized countries not to mandate some form of paid leave for employees. As we have previously noted, American workers take significantly less paid time off during the year than their European counterparts, much to the consternation of health and wellness experts, who warn that too little time off can lead to burnout, stress and other health issues further down the line. So just how much time off are Americans getting these days? The International Foundation of Employee Benefit Plans' just-released 2017 survey finds that, on average, salaried employees in the U.S. with paid-time-off plans receive 17 days after one year of service, 22 days after five years, 25 days after 10 years of service and 28 days after 20 years (this includes vacation and sick days). In terms of paid vacation days, salaried U.S. employees receive on average 12 days after one year of service, 16 days after five years, 19 days after 10 years and 23 days of vacation after 20 years of service. Most employers let workers carry over their paid leave time from one year to the next, with 83 percent of employers allowing them to carry over some or all unused days in a paid time off (PTO) bank, while 74 percent allow hourly workers to carry over vacation days and 77 percent allow their salaried employees to do so. Approximately one in seven organizations let workers sell their vacation time back to the company for cash. As for the upcoming holiday season, just about all (99 percent) of organizations that offer paid holiday time offer Thanksgiving Day as a paid holiday and 75 percent include the Friday after Thanksgiving as well. Just under half (45 percent) offer

Christmas Eve off as a paid holiday, but practically all (99 percent) offer Christmas Day off as well as New Year's Day. And for some lucky employees, 13 percent of organizations shut down their operations and offer a full paid week of holiday leave between Christmas and New Year's.

4. NATIONAL TAX SECURITY AWARENESS WEEK: EIGHT STEPS TO KEEP ONLINE DATA SAFE: During the holiday shopping season, shoppers are looking for the perfect gifts. At the same time, criminals are looking for sensitive data. These data include credit card numbers, financial accounts and Social Security numbers. Cybercriminals can use this information to file a fraudulent tax return. This tip is part of National Tax Security Awareness Week. The IRS is partnering with state tax agencies, the tax industry and groups across the country to remind people about the importance of data protection. Anyone with an online presence can do a few simple things to protect his identity and personal information. Following these eight steps can also help taxpayers protect their tax return and refund in 2018:

- **Shop at familiar online retailers.** Generally, sites with an “s” in “https” at the start of the URL are secure. Users can also look for the “lock” icon in your browser’s URL bar. That said, some criminals may get a security certificate, so the “s” may not always mean a site is legitimate.
- **Avoid unprotected Wi-Fi.** Users should not do online financial

transactions when using unprotected public Wi-Fi. Unprotected public Wi-Fi hotspots may allow thieves to view transactions.

- **Learn to recognize and avoid phishing emails that pose as a trusted source.** These emails can come from a source that looks like a legitimate bank or even the IRS. These emails may include a link that takes the user to a fake website. From there, the thieves can steal usernames and passwords.
- **Keep a clean machine.** This includes computers, phones and tablets. Users should install security software to protect against malware that may steal data. This software also protects against viruses that may damage files.
- **Use passwords that are strong, long and unique.** Experts suggest a minimum of 10 characters. Use a combination of letters, numbers and special characters. Use a different password for each account.
- **Use multi-factor authentication when available.** Some financial institutions, email providers and social media sites allow users to set their accounts for multi-factor authentication. This means users may need a security code, usually sent as a text to their mobile phone, in addition to a username and password.
- **Sign up for account alerts.** Some financial institutions will send email or text alerts to an account holder when there is a withdrawal or change to their accounts. Generally, people can check their account profile to see what added protections may be available.

- **Encrypt sensitive data and protect it with a password.**

People who keep financial records, tax returns or any personal information on their computer should protect these data. Users should also back up important data to an external source. When disposing of a computer, mobile phone or tablet, people should make sure they wipe the hard drive of all information before trashing.

5. LESS THAN 1% OF DC PLAN PARTICIPANTS TOOK HARDSHIPS IN THE FIRST HALF OF 2016: Few defined contribution (DC) plan participants took withdrawals from their plans in the first half of the year, the Investment Company Institute reports by way of www.plansponsor.com. Just 2.2% of participants took withdrawals, a mere blip from the 2.1% that did so in the first half of 2016. Only 0.9% of participants took hardship withdrawals, on par with 2016. In the first half of the year, 16.7% of participants had an outstanding loan from their DC plan, up only slightly from the 16.6% of participants who could say the same at the end of the first half of 2016. However, this is up from 15.3% at the end of 2008 and down slightly from the 18.5% at the end of 2011. Participants also remained committed to investing in their DC plan, with a mere 1.6% ceasing contributions, down from 1.9% in the first half of last year. Participants also displayed contentment with their investment choices, with only 6.8% reallocating their account balances and 4.3% directing new investments for their contributions. Account balance changes were on par with 2016 and contribution reallocations were slightly lower than in

the first half of 2016, ICI says. The withdrawal and contribution data indicate that, essentially, all DC plan participants continued to save in their retirement plans at work.

6. PROCRASTINATION PAYS! WHY YOU SHOULD DELAY

RETIREMENT FOR AS LONG AS POSSIBLE: There is just one sad conclusion to the current retirement crisis in America: You need to work longer if you want to avoid retirement hell. Absent more revenue injected into Social Security, fewer medical expenses in old age or the unexpected return of employee pension plans, the only way to shore up your golden years is to delay retirement and save more. Dreams of trips to exotic locales and more time with the family during your working years could turn into nightmares of running out of money deep into old age if you bow out too early. Plus swinging on a hammock might not be as enthralling as it currently seems, says www.bankrate.com/retirement. Today's workers are simply not prepared for retirement. Private sector pensions eroded after the introduction of retirement plans, like 401(k)s, which Americans have subsequently underutilized. The full benefit age of Social Security is increasing, while medical costs are sky rocketing for those over 65. You have never been at more risk of lowering your standard of living in retirement than today. The biggest financial regret for Americans, according to a Bankrate survey, is not saving for retirement early enough. Only about half of all households have an IRA or 401(k) while the average account balance for those nearing retirement age was only \$135,000 in 2016, much less than what is needed to maintain

your standard of living. These facts could lead to huge problems. About two-thirds of workers retire before the age of 65, according to [LIMRA](#) (Life Insurance and Market Research Association), which means they will likely take Social Security benefits as early as possible, thereby locking in lower monthly payouts. That jibes with millennials, 67 percent of whom say they want to leave the workforce by the same age. There is a nifty tool that shows you the probability that you will live to be a certain age, and it finds that a healthy 65 years-old female has about a fifty-fifty shot of making it to 90. Exiting the workforce in your early-to-mid sixties, then, means you will have to rely on your savings and Social Security for 30 years. The Boston College Center for Retirement Research has a useful metric to gauge retirement preparedness, called the [National Retirement Risk Index](#). Slightly more than half of households today are at risk of experiencing a lower standard of living when they retire, compared to 30 percent in 1989. Thanks to Social Security's full benefit age rising to 67 for people born after 1960, as well as ever more costly Medicare premiums and out-of-pocket expenses, social insurance simply is not going as far as it used to. Toss in less generous employer-sponsored pension plans, including a shift from defined benefits to defined contributions, and people are less prepared than they used to be. These economic realities are causing some seniors to work long—the labor force participation rate for workers over the age of 65 has risen three points to 24.3 percent over the last nine years. A Bankrate survey from 2016 found that only 13 percent of non-retirees wanted to retire in their 50s, compared to 27 percent in 2007. By working

through your 60s, you give yourself a much better shot at a secure retirement. Boston College found that financial readiness for retirement would improve from around 30 percent at age 62 to nearly 80 percent at 70. Why? By pushing back the date you file for Social Security benefits by eight years to 70, you receive 76 percent more each month. Boston College also found that you would nearly double your 401(k) holdings. You would also have more time to pay off credit card debt and your mortgage, and give yourself time to adjust to life outside of the workforce. That can be a big help since more than a quarter of recent retirees, according to a [Nationwide survey](#), found life in retirement to be worse. Why? They did not realize how much their medical costs would rise, and how little their Social Security check would cover. Americans are living longer. Working longer makes affording your golden years much easier.

7. NEW OFFICE ADDRESS: Please note that Cypen & Cypen has a new office address: Cypen & Cypen, 975 Arthur Godfrey Road, Suite 500, Miami Beach, Florida 33140. All other contact information remains the same.

8. CRAZY STATE LAWS: *Good Housekeeping* reminds us that there are crazy laws in every state. In Washington it is illegal to attach a vending machine to a utility pole. It is unlawful in the Evergreen State to commit this act without permission of the utility involved. Logic is it is a hazard to the lives of electrical workers — but would be very convenient during lunch time.

9. INSPIRATIONAL QUOTE: I have missed more than 9000 shots in my career. I have lost almost 300 games, 26 times I have been trusted to take the game winning shot and missed. I have failed over and over and over again in my life. And that is why I succeed. – Michael Jordan [Great Quote].

10. LEXOPHILES: When she saw her first strands of grey hair she thought she'd dye.

11. FUNNY TOMBSTONE SAYINGS: Dude, that really WAS a killer wave!

12. TODAY IN HISTORY: In 1941, the Imperial Japanese Navy with 353 planes attack a US fleet at Pearl Harbor Naval Base, Hawaii, killing 2,403 people.

13. KEEP THOSE CARDS AND LETTERS COMING: Several readers regularly supply us with suggestions or tips for newsletter items. Please feel free to send us or point us to matters you think would be of interest to our readers. Subject to editorial discretion, we may print them. Rest assured that we will not publish any names as referring sources.

14. PLEASE SHARE OUR NEWSLETTER: Our newsletter readership is not limited to the number of people who choose to enter

a free subscription. Many pension board administrators provide hard copies in their meeting agenda. Other administrators forward the newsletter electronically to trustees. In any event, please tell those you feel may be interested that they can subscribe to their own free copy of the newsletter at <http://www.cypen.com/subscribe.htm>.

15. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.